

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Competitive Product Prices
International Competitive Multi-Service
Commercial Contracts

Docket No. MC2020-252

Competitive Product Prices
International Competitive Multi-Service
Commercial Contracts 1 (MC2020-252)

Docket No. CP2020-282

CHAIRMAN'S INFORMATION REQUEST NO. 1

(Issued October 8, 2020)

To clarify the Postal Service's request to add International Competitive Multi-Service Commercial Contracts (ICMSSC) 1 to the Competitive product list and to implement a streamlined filing process concerning this new product,¹ the Postal Service is requested to provide written responses to the following questions. The responses are due no later than October 15, 2020.

1. In its Request, the Postal Service references Order No. 43, in which the Commission stated that "[i]n the future, it may be appropriate to group functionally equivalent negotiated service agreements [(NSAs)] as a single product if it can be shown that they have similar cost and market characteristics."² The Postal Service also references the Global Expedited Package Services—Non-Published Rates (GEPS-NPR) product, in which the Commission has grouped NSAs for Express Mail International and Priority Mail

¹ Request of the United States Postal Service to Add International Competitive Multi-Service Commercial Contracts 1 to the Competitive Products List and Application for Non-Public Treatment of Materials Filed Under Seal, September 18, 2020 (Request).

² Request at 3; see Docket No. RM2007-1, Order Establishing Ratemaking Regulations for Market Dominant and Competitive Products, October 29, 2007, at 58 (Order No. 43).

International through “business rules to ensure that the specific, potential rates set forth in a standard [GEPS-NPR] contract template are established and previously reviewed by the Commission.” Request at 4. The Postal Service notes that these rules “ensure that such [GEPS-NPR] agreements will, as a product, comply with all statutory and regulatory requirements for cost-coverage and contribution to institutional costs and that they will not be subsidized by market-dominant products.” *Id.*

- a. Please explain how agreements with customized contractual terms and any combination of eight potential service offerings, considered for inclusion in the ICMSCC 1 product, are functionally equivalent to each other. Please focus the explanation on the shared cost and market characteristics of these agreements.
 - b. Please confirm that the proposed ICMSCC 1 product would not be subject to the business rules that ensure statutory and regulatory compliance for GEPS-NPR agreements, including a template agreement that offers identical services and prices within a pre-approved range. If confirmed, please explain how statutory and regulatory compliance can be ensured without these restrictions.
2. Please explain whether the agreements that the Postal Service seeks to file within the ICMSCC 1 product could be filed, using the proposed streamlined review process, under existing and/or new products that each contain the same combination of the services currently included in the Competitive product list,³ in order to achieve functional equivalency. Based on the Postal Service’s

³ Services currently included in the Competitive product list and available to outbound international NSAs include: Global Express Guaranteed, Priority Mail Express International, Priority Mail International, First-Class Package International Service, International Priority Airmail, International Surface Air Lift, Commercial ePacket, and Destination Country Duty and Taxes Chargeback Service. *Id.* at 13.

experience with outbound international NSAs, please identify how many separate products would be necessary to capture past combinations of the services offered to customers shipping internationally.

3. Please confirm that the Postal Service does not view the underlying agreements that would comprise the ICMSCC 1 product as requiring a “rate [or] class decision[s]” subject to 39 U.S.C. § 3632(b)(3).
 - a. If confirmed, please explain why these customized agreements with differing service offerings, costs, and prices do not require a “rate or class decision” under 39 U.S.C. § 3632(b)(3).
 - b. If not confirmed, please explain how the proposed review period of 5 business days comports with 39 U.S.C. § 3632(b)(3).
4. The Postal Services states that the streamlined process would allow it to “place customized outbound international NSAs into effect more rapidly at a reduced cost.” Request at 21. The Postal Service further claims that “[b]ecause the agreements typically have a one-year term, the transaction costs for developing the pricing and filing each agreement as a separate product are substantial as well.” *Id.* Please explain whether the anticipated reduction in transaction costs for the agreements included in the proposed ICMSCC 1 product would result from the streamlined filing and review procedures only or whether the reduction in transaction costs would also be associated with the development of pricing for these agreements. If the latter, please provide details about how prices for the agreements included in the ICMSCC 1 product will be developed and provide financial workpapers for the price development mechanism for the Commission’s review.

5. The Postal Service states that it intends to “continue the use of the ‘NPR’ approach for its contract customers that lend themselves to using standardized terms, who are generally smaller volume customers that do not have a need for customization of terms.” *Id.* at 5 n.11.
 - a. Please provide the contract volume that would constitute a “smaller volume” customer.
 - b. Please explain whether the volume referenced in question 5.a. would apply to agreements with any combination of service offerings.
 - c. Please explain which terms of the agreements included in the proposed ICMSCC 1 product will be customized and which terms will be standardized for “smaller volume” customers.
6. The Postal Service includes proposed revisions to the Mail Classification Schedule (MCS) in Attachment 3 of the Request. The proposed MCS language does not include mail preparation requirements or annualized minimum volume or revenue commitments. Please explain whether the agreements included in the ICMSCC 1 product would be subject to the above listed requirements in order to qualify for discounted prices and describe the impact of the absence of these requirements on costs incurred by the agreements as well as on transaction costs.

7. In its Request, the Postal Service lists tasks currently performed by the Commission that would be eliminated from the Commission's review process of the agreements included in the proposed ICMSCC 1 product.⁴ These represent administrative tasks. The Postal Service faces challenges associated with the COVID-19 crisis.⁵ These challenges have financial and quality implications for outbound international NSAs. The pre-implementation review of financial workpapers for outbound international NSAs is designed to meet the statutory requirement that these agreements cover costs. The following measures would aid in expeditious pre-implementation review by the Commission:

- Link the "settlement charge" workbook to relevant "settlement charge_by_group" workbooks for services included in an agreement
- Link "settlement charge_by_group" workbooks to respective financial workpapers which calculate projected financial performance for services included in an agreement
- If no "settlement charge_by_group" workbook exists (as is currently the case for commercial ePackets), link the "settlement charge" workbook directly to financial workpapers for the affected service included in an agreement
- Provide a summary document which lists the following:
 - Services included in an agreement
 - Total expected volume for the contract period
 - Total expected revenue for the contract period

⁴ The avoided tasks include: assignment of MC and CP docket numbers for each contract, preparation and issuance of initial scheduling orders, routine Public Representative comments, and final orders concerning each agreement. *Id.* at 15.

⁵ See Docket No. ACR2019, Responses of the United States Postal Service to Questions 1-2 of Commission Information Request No. 4, September 23, 2020 (Response to CIR No. 4).

- Distribution of volume and weight between services included in an agreement
- Information on whether the customer will serve as a reseller and, if so, for which services
- Contract period, including dates, and potential extensions
- Date of exchange rate used
- Discount rates negotiated for each service, and whether they are applied to published retail or commercial prices, including implementation date of the prices discount rates are applied to
- Postage vendor and percentage of revenue sharing
- Inflation factors used in financial workpapers, for each of mail processing, delivery, other cost, air transportation, and surface transportation
- Contingency factors used in financial workpapers for each of: international surface transportation, delivery, and other costs
- Service level for each service included in the agreement
- All updates to settlement charges included in settlement charge workbook, from the settlement charges used for the most recent serial-numbered agreement
- Overall projected cost coverage for an agreement, as well as cost coverage of each service included in an agreement
- Any expected challenges that can impact projected cost or projected revenue of an agreement, and which are not reflected in the latest fiscal year cost data used in financial workpapers, and are not captured by the inflation and contingency factors

Please discuss whether, and how, the Postal Service would implement these measures, and any others that would aid in the Commission's pre-implementation review of outbound NSAs.

8. Please explain what measures the Postal Service will take to ensure that the statutory and regulatory requirements for cost coverage, contribution to institutional costs, and cross-subsidization by Market Dominant products of the serial-numbered agreements as well as the ICMSCC 1 product, if approved, are complied with, addressing the following:
- Business rules designed to ensure compliance of each agreement as well as the ICMSCC 1 product, for both “smaller volume” customers and customers with customized contract terms
 - Unit costs, inflation factors, and contingency factors not reflective of cost implications of the COVID-19 or any other future crisis for outbound international NSAs included in the proposed ICMSCC 1 product
 - The short-term nature of outbound international NSAs comprising the proposed ICMSCC 1 product, coupled with the absence of monitoring of their financial performance during the terms these agreements are in effect⁶
9. Please confirm that the cost coverage for the NSAs included in the proposed ICMSCC 1 product will be reported at an agreement level in future Annual Compliance Review dockets.

By the Chairman.

Robert G. Taub

⁶ See Response to CIR No. 4, question 1.